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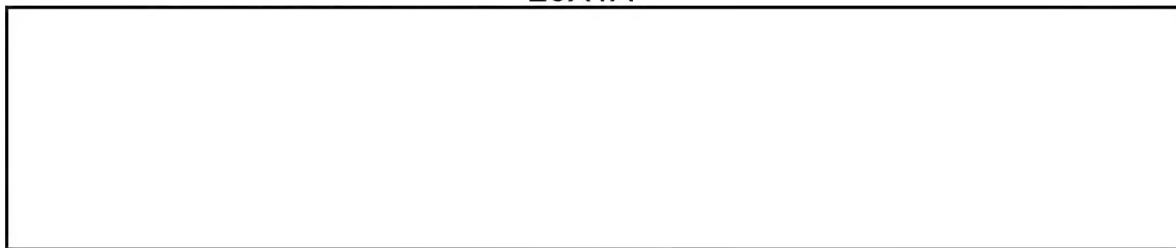
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1. FRENCH MAY TAKE DRASTIC STEPS TO AVERT
ECONOMIC CRISIS

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French finance minister Paul Ramadier's plan to cut the 1957 budget by \$744,300,000 may be the beginning of a serious effort to stave off an economic crisis. Ramadier is reported to have proposed that \$286,000,000 be cut from military expenses by an immediate demobilization of 100,000 troops from the forces now in Algeria. Such a cut, however, would be strongly opposed by the minister of defense and Resident Minister in Algeria Lacoste on the grounds that it would endanger France's pacification effort in Algeria.

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The Mollet government has attempted to cope with inflation by substantial increases in imports, but at the cost of bringing France's gold and dollar reserves down to a minimum working level. France's trade deficit for January was about \$174,000,000 and the director of the Treasury believes the French economy faces a "complete collapse" if this rate of loss continues. A reduction of imports, which might rectify this situation, would at the same time be contrary to the proposed liberalization of trade under the Common Market.

Stringent economies in expenditures would also force a cutback in proposed plans for revamping the army and development of North Africa. Moreover, an airing of France's financial difficulties may offer the right center an opportunity to launch an attack on the Mollet government.

While the French disclaim any intention of launching aid discussions during Mollet's visit to Washington

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on 26-27 February, Ramadier may be trying to underline France's problem and to dramatize its willingness to economize in the hope that serious aid discussions will arise in the course of talks on European defense, the Middle East and Eurafriean investments.

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2. COMMUNIST INFILTRATION OF INDONESIAN ARMY

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Indonesian Communists appear to be making progress in penetrating army units in Java, particularly in the highly strategic Djakarta and West Java com-

mands. [redacted] the chief of staff in the Djakarta command is pro-Communist, and a Communist regimental commander in West Java is said to be exerting considerable influence on the territorial commander. Although right-wing officers in West Java still outnumber the Communists, the daily arrest or reassignment of anti-Communist officers for involvement in the "Lubis plot" is giving the Communists additional opportunities.

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Control of the army has been a priority Communist goal in Indonesia having equal importance with the subversion of the peasant and laboring classes. Until 1956, the army--and particularly the West Java and North Sumatra commands--provided the principal brake on Communist influence in Indonesia. [redacted]

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3. SUKARNO ANNOUNCES "CONCEPT" OF NEW INDONESIAN GOVERNMENT

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President Sukarno's 21 February announcement of his "concept" for more effective government in Indonesia is a blow to parliamentary government and an important gain for the Communists. Sukarno, calling for an entirely new system of government, said that Indonesia's problems were the result of its adherence to Western-style democracy and its toleration of opposition.

He proposed the establishment of an "advisory council" to direct the activities of a "mutual aid" cabinet, and participation by the Communist Party in both organizations. According to Sukarno, the council is to be a "reflection of the community," representing such groups as labor, women, youth and the armed forces, while the cabinet would be composed of representatives of all parties in parliament. This system, Sukarno claims, would create conditions in which all Indonesians could live as "one big family" in an "atmosphere of national peace."

The successful implementation of Sukarno's "concept" rests largely on the reaction of the army, the political parties, and the non-Javanese areas. Chances of general army support--at least in Java--seem good. Recent changes in army leadership have rendered major elements more amenable to Sukarno's policies, and his offer of army representation on the council may meet the objections of anti-Communist elements. The adherence of several important political parties,

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particularly the two largest Moslem parties, the Masjumi and the Nahdlatul Ulama (NU), is in doubt. The Masjumi has consistently refused to participate in a regime that included Communists, and the NU is reportedly divided on the issue of Communist participation in government. Unless it develops that former vice president Hatta is given an important position and greater autonomy is guaranteed to the provinces, the presently disaffected areas are not likely to accept the president's proposals.

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6. INDIA MAY ENCOURAGE MORE PRIVATE FOREIGN INVESTMENT

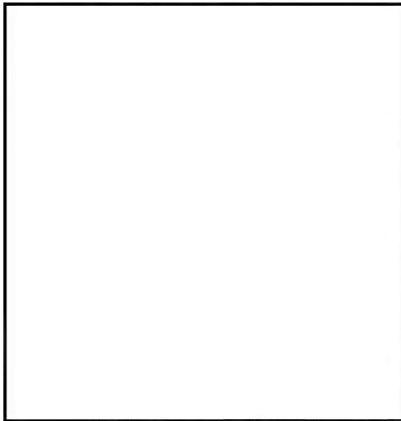
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Indian finance minister Krishnamachari has admitted that the Second Five-Year Plan (1956-61) may have to be extended to seven years. Rather than extend the period of the plan, India may modify its policies in favor of private foreign investment.

Krishnamachari recently told Sir Jehangir Ghandy, director of Tata Iron and Steel Co., that the Five-Year Plan could be met only if approximately \$2 billion were made available from foreign sources in the next four years, and added that he doubted such funds would be made available by foreign governments. Krishnamachari had tentatively agreed that after the elections Tata and the Kaiser interests would be permitted to construct a large jointly owned shipyard despite the fact that shipbuilding is reserved for the public sector of the economy.

While Prime Minister Nehru and the Congress Party have committed their prestige to developing a socialistic pattern of society as well as to the successful fulfillment of the plan in five years, they might be willing to reduce the emphasis on socialization if convinced that such a policy would attract the foreign capital needed to fulfill the plan goals.

7. HANOI ADMITS CONTINUED POPULAR DISCONTENT



Although there have apparently been no outbreaks in North Vietnam on a scale comparable to last November's uprisings, which were suppressed by the army, the population continues restive in certain areas. The party organ Nhan Dan in late January admitted new demonstrations against the authorities in some villages of Ha Tinh Province, not far from the scene of the 1956 disorders. The article states that dissatisfied peasants, demanding return of their property confiscated during land reform, rioted and surrounded the homes of Communist cadres.

Hanoi has sought to conciliate the population by pushing a "mistake-correction" campaign. Many landlords have been "reclassified" and some of their property has been restored. Hanoi is also reinstating party personnel who had been purged and reorganizing party cells which had been "wrongly dissolved."

The populace is impatient of delays in implementing "mistake-correction," and the Communists are finding it necessary to appeal for calm and understanding. Concurrently, the regime is giving notice of its determination to act forcefully against any new demonstrations. The Nhan Dan article warns that "energetic measures" must be taken against those "who aim to rise up against the party and government."

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ANNEX

Watch Report 342, 20 February
of the
Intelligence Advisory Committee

Conclusions on Indications of Hostilities

On the basis of findings by its Watch Committee the Intelligence Advisory Committee concludes that:

- A. No Sino-Soviet Bloc country intends to initiate hostilities against the continental US or its possessions in the immediate future.
- B. No Sino-Soviet Bloc country intends to initiate hostilities against US forces abroad, US allies or areas peripheral to the Orbit in the immediate future.
- C. A deliberate initiation of hostilities in the Middle East is improbable in the immediate future. The crucial issues of Israeli withdrawal and Suez Canal control, as well as continuing tensions in the area, constitute possibilities for violence.

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